FRBSF Economic Letter

2026-02 | January 12, 2026

Research from
the Federal Reserve
Bank of San Francisco

The Recent Slowdown in Labor Supply and Demand

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The pace of job growth cooled through mid-2025, while the unemployment rate rose relatively little. This seeming puzzle is explained by an even stepdown of labor supply and demand, meaning slowing labor force growth coincided with a slowdown in job growth. The recent decline in job growth is broad based across industries, suggesting a widespread softening of labor demand. For the labor force, recent declines are driven by changes in immigration flows and declining labor force participation. Together, these factors may signal some underlying fragility in the labor market.

Job growth slowed notably from mid-2024 to mid-2025. Such shifts in job growth are usually associated with rising unemployment. The unemployment rate, however, changed relatively little over this time frame. This general steadiness in the unemployment rate, while welcome, is somewhat puzzling and has led some to conjecture that labor supply, as measured by the size of the labor force, must be slowing at the same pace as labor demand, measured by payroll employment (Powell 2025). In this *Economic Letter*, we show that labor force growth and job growth have indeed slowed at a similar pace. This becomes apparent after adjusting the data appropriately to ensure an accurate comparison between the two measures.

Though a joint stepdown explains why the unemployment rate has changed relatively little, this balanced slowdown may mask underlying fragility in the labor market. In fact, we find two factors that suggest greater weakness than conveyed by the low and fairly constant unemployment rate. First, the vast majority of job growth in the first half of 2025 has been limited to a single industry—education and health services—with other broad sectors contracting or showing almost no growth. Second, declining rates of labor force participation (LFP) play a significant role in the slowing of labor force growth. Since LFP rates tend to respond to the cyclical strength of the labor market, this suggests a weakening environment for workers.

The joint slowdown in labor market conditions

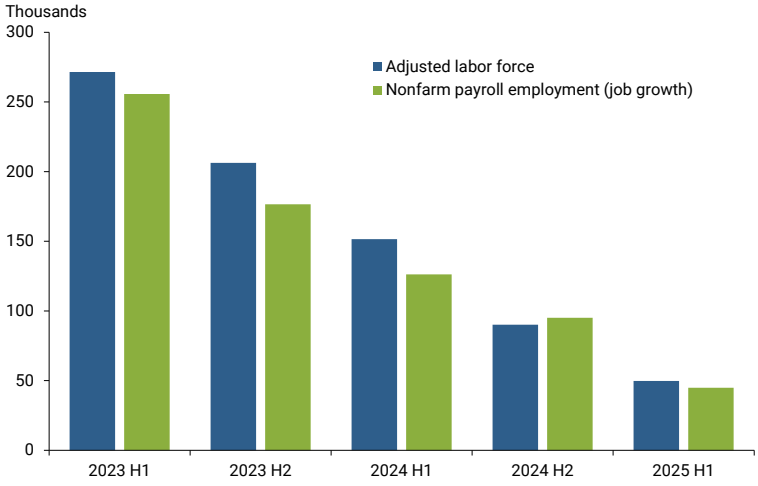
We examine labor market conditions starting in 2023, when the unemployment rate hit a post-COVID low. A decline in job growth since then has been matched by relatively small increases in the unemployment rate, and this pattern has been particularly pronounced from summer 2024 to summer 2025. To capture labor demand, we use nonfarm payroll employment data from the Bureau of Labor Statistics' (BLS) Current Employment Statistics (CES) program. The CES is a representative survey of businesses and government agencies and provides an employer-side estimate of job growth. To capture labor supply, we use data from the BLS's Current Population Survey (CPS). The CPS is a survey of households that is the basis for official labor force statistics, giving a worker-side estimate of labor market conditions, including labor force growth. To

better isolate trends from month-to-month fluctuations, we measure job and labor force growth as the average monthly change over six-month periods.

To most accurately measure nonfarm payroll employment growth, we incorporate the preliminary 2025 benchmarking released in September 2025 at the major industry level, applying it evenly from April 2024 to March 2025 following BLS methodology. Benchmarking is an annual process in which the number of jobs in the CES is adjusted to align with the number of jobs obtained from counting the near universe of jobs reported to the BLS through the Quarterly Census of Employment and Wages. Applying this to the published BLS series, which do not yet incorporate the preliminary benchmarking, adjusts payroll employment growth down from early 2024 to early 2025.

Adjustments to both payroll employment and labor force numbers are critical for a fair comparison (see Bengali et al. 2025 for additional details). First, we adjust the labor force numbers by aligning the counts of those in the labor force who are employed with the measurement of payroll employment on some definitional differences. Second, we incorporate improved population estimates intended to better capture the impact of rapid changes in net migration on estimates of the labor force (Coglianese, Murray, and Nekarda 2025). Lastly, we remove monthly fluctuations from underlying trends.

Figure 1
Average monthly growth: Adjusted labor force, payrolls



Note: Series are adjusted as described in the text and are seasonally adjusted.
Source: Bureau of Labor Statistics and authors' calculations.

Accounting for these adjustments, Figure 1 shows that average monthly growth on the demand side (green bars) and on the supply side (blue bars) have both steadily declined since 2023. Between the first and second half of 2023, job growth (green bars) dropped nearly 80,000 jobs per month, but the average unemployment rate increased only 0.3 percentage point. Similarly, between the first half of 2024 and 2025, job growth declined about another 80,000 jobs per month, yet the average unemployment rate only increased from 3.9 to 4.1%. Thus, these two large drops in job growth coincided with relatively small changes in the unemployment rate. This apparent disconnect can be explained by a similarly paced slowdown in labor force growth over this period (blue bars). To better understand what this slowdown signals about the strength of the labor market, we investigate the specific drivers of both the demand- and supply-side reductions across sectors and demographic groups.

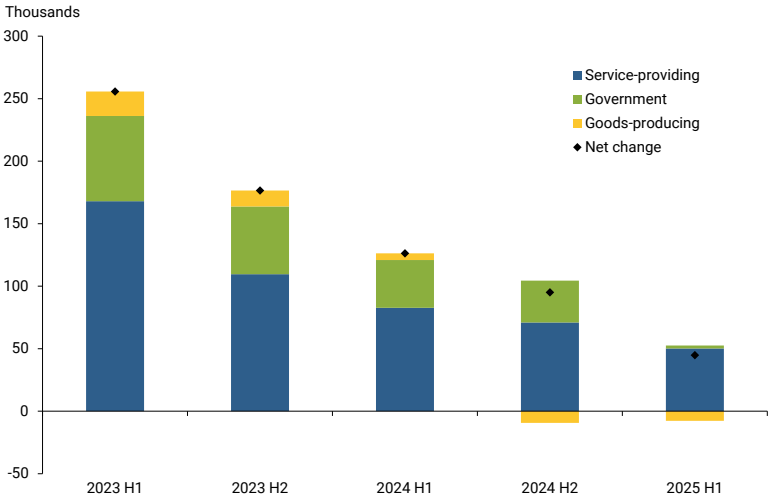
The demand side: Recent changes in job growth

Industries can be broadly categorized into three super sectors: government, goods-producing, and service-providing. We break down benchmarked payroll employment growth data by each super sector in Figure 2 to identify where the slowdown has been most pronounced.

Job growth generally diminished across all three super sectors to different degrees. The service sector remained robust and was central to job growth in 2025, adding over 50,000 jobs per month on average. The goods-producing sector began losing jobs on net in the second half of 2024. Government—previously a significant source of job growth—fell to near-zero growth in the first half of 2025.

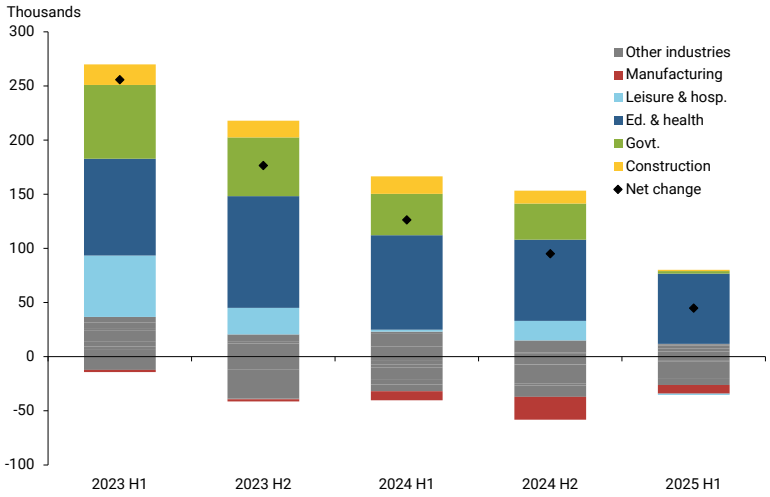
A further breakdown of job growth by major industry in Figure 3 reveals that the sustained growth over this period has been driven by a single major industry in the service sector, education and health services (dark blue bars). The concentration of job growth in education and health services was particularly stark in the first half of 2025 when the remaining industries in the service sector lost about 15,000 jobs per month. While some of these industries had experienced losses before 2025, job growth in others, like leisure and hospitality, only became negative in 2025. Among industries in the goods-producing sector, manufacturing consistently lost jobs in 2024—21,000 per month in the second half of the year—and continued to lose jobs in 2025, though the pace slowed. Another industry, construction, which added to payrolls consistently through 2024, saw essentially no growth in the first half of 2025.

Figure 2
Average monthly payroll growth by super sector



Note: Series are adjusted as described in the text and are seasonally adjusted. Black dots show total change.
Source: Bureau of Labor Statistics and authors' calculations.

Figure 3
Average monthly payroll growth by major industry



Note: Series are adjusted as described in the text and are seasonally adjusted. Black dots show total change. Gray shades include the following industries: mining/logging, wholesale, retail, transportation/warehousing, utilities, information, financial services, professional and business services, and other services.
Source: Bureau of Labor Statistics and authors' calculations.

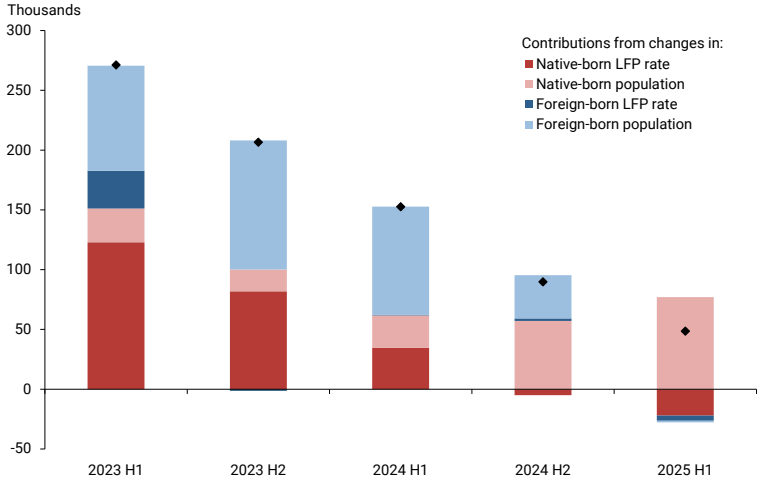
Some industries are more likely to be exposed to changes in immigration and tariff policy (Passel and Cohn 2016 and Azzimonti et al. 2025). However, drawing strong conclusions based on the aggregate data is difficult. Broader trends in consumer demand likely contributed to slowing job growth in those industries that are more exposed to undocumented workers (construction, leisure and hospitality, and other services). Industries that are more exposed to tariffs (manufacturing and mining/logging) experienced net losses before major policy changes in 2025.

The supply side: Recent changes in labor force growth

Lower immigration and lower labor force participation have been cited as likely reasons for slowing labor supply growth (Powell 2025). Figure 4 allows us to assess them both. The sum of the dark and light red sections of the bars shows average monthly labor force growth among the native-born population, while the sum of the dark and light blue sections shows the corresponding growth among the foreign-born population. Some caution is warranted when separating contributions into these two groups because the CPS was not designed to measure population by birth region. The adjustments we apply, notably to smooth the data series and the use of updated population estimates, help address this issue. Growth has slowed for both groups, but more so for the foreign-born population, down from about 119,000 individuals each month in 2023 to a decline of 6,000 per month in the first half of 2025. Labor force growth of the native-born population, by comparison, slowed from 151,000 individuals to 55,000 per month.

To see the role of LFP in labor force growth, we separate drivers of growth for both groups into population changes and changes in the LFP rate. The labor force can increase because of population growth or shifts in the population composition towards groups with higher participation rates, even if group-specific LFP rates remain constant. Absent population growth, the labor force could increase if more people decide to work or look for work, thus increasing the LFP rate. The lighter shades of blue and red in Figure 4 represent population growth contributions to labor force growth, while the darker shades represent contributions from LFP rate changes.

Figure 4
Contributions to monthly growth in adjusted labor force



Note: Series are adjusted as described in text and are seasonally adjusted. Black dots show total change,
Source: Bureau of Labor Statistics and authors' calculations.

The large light blue shaded areas indicate that the population component was the main driver of the strong foreign-born labor force growth in 2023 and 2024. This is consistent with an increase in the foreign-born population during this time (Duzhak and New-Schmidt 2025). In 2025, the downward shifts in both the population and LFP rate components for foreign-born individuals (blue shades) reduced labor force growth, indicating that the foreign-born population has declined and that foreign-born individuals are becoming less likely to be in the labor force. For native-born people (red shades), labor force growth was quite strong in 2023, driven by higher LFP rates (dark red bar). These rates were particularly high among women ages 16–24, as well as women ages 35–44 and men ages 45–54. In 2024 and the first half of 2025, the dark red section of the bar becomes negative. This reflects declines in LFP rates, particularly among 16- to 24-year-old women and all people over age 65.

Population contributions, by contrast, remain positive, as people age into groups with higher participation rates. The growing population for those groups with higher LFP rates is currently outpacing the declines in

LFP rates among foreign-born and native-born people. However, those declining participation rates may signal growing fragility in the supply side of the labor market, since participation rates tend to move up and down with the overall state of the economy and the labor market.

Conclusion

This *Economic Letter* finds that, after proper adjustments to put the data series on the same basis, labor supply and demand have indeed slowed in tandem. This has kept the unemployment rate largely unchanged, despite a sharp slowdown in job growth. We further find evidence that this steadiness masks underlying fragility on both the supply- and demand-side of the labor market. Demand-side growth is now concentrated in a single industry, education and health services, and labor force participation rates, which are often responsive to the underlying strength of the labor market, have declined notably among the native-born population.

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